

3. **Operator:** The Operator is normally the Associate. However, the parties may designate a third party as operator.

4. **Duration:** The maximum term permitted for Association Contracts is 28 years, as follows:

Exploration: 3 years, extendable for 3 additional years.

Production: 22 years maximum.

5. **Executive Committee:** The Executive Committee, comprised of representatives of the parties, supervises, controls and approves all contractual operations and activities.

6. **Cost Sharing:** All the risks and costs during the exploration phase are assumed by the Associate. Once commercial viability of a discovery is accepted by Ecopetrol, it reimburses the Associate up to 50 percent of all direct exploratory costs, including dry hole expenses. Post-discovery development costs are assumed by Ecopetrol and the Associate in equal shares.

7. **Royalties:** The Operator must deliver to Ecopetrol a royalty amounting to 20% of the area's hydrocarbon production, as recorded by the Ministry of Mines and Energy. The royalty is delivered in kind at the wellhead to Ecopetrol which is required in turn to transfer the equivalent funds to the Government.

8. **Production Sharing:** Oil and/or gas produced during the production phase is generally shared in equal portions between Ecopetrol and the Associate, after deduction of royalties. A rate factor ("R" Factor) for the adjustment of the distribution of production based on revenues, investment, and costs was recently introduced.

The objective of the "R" Factor formula is to improve Ecopetrol's production share in highly productive fields, while maintaining a 50:50 production distribution in less productive fields. In general terms, the "R" Factor consists of a formula in which "R" is the result of an equation in which the accumulated gross revenues are the numerator and certain accumulated costs and expenditures incurred for exploration, developments, and operations are the denominator.

9. **Ownership of Hydrocarbons:** Each party becomes owner of its share of production at wellhead. The Associate can freely dispose of its oil unless the Government requires it for internal needs.

10. **Volume of Production:** The operator is required to determine the Maximum Efficiency Rate (MER) of production for each commercial field and shall periodically submit it to the Executive Committee for approval. This submission